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ABSTRACT

This guide on entrepreneurship is designed for use as a unit within an existing course. The unit is best used as individualized instruction, although small groups could be used; class discussions should precede individual work. Material is organized into six parts: entrepreneurship as a career, legal considerations of entrepreneurship, selecting a location, getting the enterprise started, marketing strategy, and a capstone activity, "Starting Your Own Business." Each unit contains a teacher instruction sheet that presents competencies, a description of the unit, items for duplication, recommended evaluation, and a listing of suggested supplementary resources. These types of student materials suitable for reproduction are included: instruction sheet with competencies, information sheets, activities, and capstone activities. A unit test and answer keys as appropriate for the test and activities are provided. A list of resources is appended. (YLB)

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Entrepreneurship Training in Vocational Education

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ENTREPRENEURSHIP

Developed by
Arizona Marketing and Distributive Education
Arizona Department of Education
Phoenix, Arizona

Adapted by
State Department of Education
Office of Vocational Education
Columbia, SC 29201
1986

SOUTH CAROLINA DEPARTMENT OF EDUCATION

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INTRODUCTION

Vocational Education in South Carolina is constantly striving to provide the most relevant and useful curriculum materials for use by teachers in the classroom. Because of the commitment to the teachers and administrators, the Office of Vocational Education has produced this guide, **ENTREPRENEURSHIP**.

This guide is designed to be used as a unit within an existing course. Any teaching method may be used. If a lecture/demonstration method is best for you, you will find sufficient help to meet your needs. If you prefer to use discussions or other methods that require student participation, you will find ample help. Regardless of which method is successful for you, this guide can save preparation time and offer innovative methods and procedures. This unit is best used as individualized instruction, although small groups could be used. Class discussions should be held before individual work begins.

This guide is organized into six parts. For the teacher's convenience, each unit includes teacher instructions, competencies, description of unit, items for duplication, evaluation and suggested supplementary resources. The teacher may adapt this material and select activities to meet the needs of the students. Flexibility for different time periods is provided with a variety of activities and with the use of various resources. This should in no way limit you, the teacher, in presenting the concepts but should provide a format from which to build. The last activity which is a capstone project can be used with the exceptional student who is interested in exploring the immediate opportunities of starting a business.

ENTREPRENEURSHIP

TOPICAL OUTLINE

I. Entrepreneurship as a Career
   1. Characteristics of a successful entrepreneur
   2. Advantages vs. disadvantages as a small business owner
   3. Discovering potential business opportunity

II. Legal Considerations of Entrepreneurship
   1. Legal forms of ownership, and which is best for your business
   2. Operating permits, licenses and tax regulations
   3. Accounting
   4. Insurance

III. Selecting a Location
   1. Personal considerations
   2. Economic characteristics
   3. Choosing the site

IV. Getting the Enterprise Started
   1. Funding sources
   2. Sales forecast
   3. Start-up costs

V. Marketing Strategy
   1. Customer profile
   2. Sales promotion
   3. Personnel

VI. Capstone Project: "Starting Your Own Business"

Unit I: Entrepreneurship as a Career

TEACHER INSTRUCTIONS

COMPETENCIES

Ability to identify the personal characteristics, skills, and sacrifices required for success as an entrepreneur

Ability to compare the advantages and disadvantages of ownership with those of working for someone else

Ability to prepare a description and rationale for a marketing business opportunity

DESCRIPTION OF UNIT

This unit is best used as individual instruction although, conceivably, small groups could be used. It would be well to review each Information Sheet orally with the class before individual work begins. Each unit and each activity is self-directed.

DUPLICATION

Information sheets, Activities 1-5, Capstone Activity I, Unit Test #1.

EVALUATION

Activity Completion - Answers will vary; keys provided where appropriate.

Unit Evaluation - Students will take Unit Test at the completion of the unit. Key provided

Project Evaluation - Each unit has a "Capstone Activity" which explores a new enterprise, that can be used for the final project. At the completion of Units 1-5, have students use each capstone activity for their project. Each capstone activity is listed as a **Business Plan**. (See Unit VI for information on the Capstone Project.)

SUGGESTED SUPPLEMENTARY RESOURCES

Preparing for Entrepreneurship, by Kenneth L. Rowe and Roger W. Hutt, for the Arizona Department of Education, September 28, 1979.
Starting Your Own Marketing Business, by Vivien King Ely and Michael Barnes, second edition, Gregg McGraw-Hill, 1978.

Creating a New Enterprise, by Roger W. Hutt, South-Western Publishing Co., 1982.

Retail Merchandising, by Harland E. Sampson, Wayne S. Little, John W. Wingate, ninth edition, South-Western Publishing Co., 1982.

Unit I: Entrepreneurship as a Career

COMPETENCIES

Ability to identify the personal characteristics, skills, and sacrifices required for success as an entrepreneur

Ability to compare the advantages and disadvantages of ownership with those of working for someone else

Ability to prepare a description and rationale for a marketing business opportunity

INSTRUCTIONS

You will be evaluated on three different criteria:

1. Your knowledge of the material in the information sheet measured by an objective test
2. Your quality of completion of the various activities
3. Your final Capstone Project, the plan you create to describe a new marketing business

Your procedure for this unit should be to:

1. Read and thoroughly understand the information presented.
2. Read the directions for each Activity.
3. Complete each Activity.
4. When you have completed the unit, take the unit test. Study the material carefully before taking the test.

Characteristics of a Successful Entrepreneur

Successful small business owners usually have strong organizational ability, drive, and leadership. Since the typical store owner may work long hours, good physical and mental health are necessary. A successful owner-operator, on a daily basis, closely supervises the operations that can spell success or failure for a business, such as: buying, selling, building and inventory supervision, recordkeeping and reporting, personnel supervision, and customer relations.

There are many characteristics that an entrepreneur must possess. But the time to evaluate these characteristics necessary for success is **before**, not **after**, a business is started. One way for the future retail operator to understand his or her own personal qualities better is through **self-evaluation**. Self-evaluation is an examination of one's own qualities, abilities, and background. Self-evaluation should reflect your honest feelings. Care must be taken not to allow emotions to influence your responses or answers unnecessarily.

Effective self-evaluation can often be accomplished by using a form of a rating scale or checklist. Frequently employers use this method to evaluate their employees. Perhaps you will evaluate future employees by a method similar to the one that follows.

The Small Business Administration (SBA) makes available a rating scale designed for self-evaluation for those interested in going into business. Although certainly not the only consideration for judging personal characteristics needed for retail ownership, it is at best one indication. The opinions of business associates, friends, and family members can also prove helpful.

Activity 1: How Do I Rate?

Read each question. Read each answer (three for each question) carefully. Take a moment and reflect on your background and experience and answer honestly. Check the answer that actually reflects your honest reaction, not just the one that sounds good.

RATING SCALE FOR GOING INTO BUSINESS

1. Are you a self-starter?
   ___ I do things on my own. Nobody has to tell me to get going.
   ___ If someone gets me started, I keep going all right.
   ___ Easy does it. I don't put myself out until I have to.

2. How do you feel about other people?
   ___ I like people. I can get along with just about anybody.
   ___ I have plenty of friends; I don't need anyone else.
   ___ Most people irritate me.

3. Can you lead others?
   ___ I can get most people to go along when I start something.
   ___ I can give the orders if someone tells me what we should do.
   ___ I let someone else get things moving; then I go along if I feel like it.

4. Can you take responsibility?
   ___ I like to take charge of things and see them through.
   ___ I'll take over if I have to, but I'd rather let someone else be responsible.
   ___ There's always some eager people around wanting to show how smart they are. I say let them.

5. How good an organizer are you?
   ___ I like to plan before I start. I'm usually the one to get things lined up when the gang wants to do something.
   ___ I do all right unless things get too goofed up; then I quit.
   ___ You get all set and then something comes along and ruins it; so I just take things as they come.

6. How good a worker are you?
   ___ I can keep going as long as I need to. I don't mind working hard for something I want.
   ___ I'll work hard for a while, but when I've had enough, that's it!
   ___ I can't see that hard work gets you anywhere.

7. Can you make decisions?
   ___ I can make up my mind in a hurry if I have to. It usually turns out OK.
   ___ I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.
   ___ I don't like to be the one who has to decide things. I'd probably be wrong.

8. Can people trust what you say?
   ___You bet they can. I don't say things I don't mean.
   ___I try to be on the level most of the time, but sometimes I just say what's easiest.
   ___What's the problem if the other fellow doesn't know the difference?

9. Can you stick with it?
   ___If I make up my mind to do something, I don't let anything stop me.
   ___I usually finish what I start--if it doesn't get fouled up.
   ___If it doesn't go right away, I turn off. Why beat your brains out?

10. How good is your health?
   ___I never run down!
   ___I have enough energy for most things I want to do.
   ___I run out of energy sooner than most of my friends.

Now count the checks you made.

___How many checks are there beside the first answer to each question?
___How many checks are there beside the second answer to each question?
___How many checks are there beside the third answer to each question?

If most of your checks are beside the first answers, you probably have what it takes to run a business. If not, you're likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points you're weak on. If many checks are beside the third answer, not even a good partner will be able to help you.

SOURCE: SMA Bulletin 71, Small Business Administration, Washington, D C

Advantages of Being an Entrepreneur

People who choose to start a business of their own usually do so for one or more of the following reasons: personal satisfaction, freedom, improved personal income, improved working conditions, or prestige.

1. **Personal Satisfaction** - Doing what you enjoy each day. Not only that, but the fact that you are fulfilling your own goals and plans means you will receive personal satisfaction.

2. **Freedom** - Relative freedom from the control of others. You are able to employ your own personal resources and abilities as you see fit. You can make decisions and not be dependent on others. You also have the freedom to develop your own creative ideas.

3. **Improved Personal Income** - Because you are your own boss, you do not have to share the profits with anyone else. You can use your management expertise and derive a good profit.

4. **Improved Working Conditions** - Because you are your own boss, you control your work surroundings. You cannot be laid-off, or forced out of a job for any other reason. You cannot be transferred to a distant location. If you move, you do so on your own choice.

5. **Prestige** - Most small business owners are regarded as successful and contributing members of the community. Also many people enjoy seeing their names on building, stationery, and media advertisements.

Activity 2: Advantages

On the preceding page you read five common advantages for starting your own business. There may be others that are unique to each special set of circumstances.

Take each of the five advantages

Personal satisfaction
Freedom
Improved personal income
Improved working conditions
Prestige

Rank them in the order of **importance to you**. Include a rationale for each advantage by writing a paragraph explaining why you ranked it where you did. If you have any other advantages you wish to include, please do not hesitate to add them to the list.

Advantage	Rationale
_____	_____
	_____
	_____
	_____
	_____
	_____
_____	_____
	_____
	_____
	_____
	_____
	_____

(Optional)

Disadvantages of Being an Entrepreneur

If you have already completed Activity 2, "Advantages of Being an Entrepreneur," you are probably already thinking of ways you can start your own business. It all sounds very glamorous and exciting (not to mention profitable)!

However, there are some glaring disadvantages to small-business ownership. Among these are: risk, sacrifice of guaranteed income, forget nine to five, the daily grind, and maintenance tasks.

1. **Risk** - You enjoy improved earnings only if your business is a success. If you fail, you lose your job, status, and possibly the investment of others who have supported you.

2. **Sacrifice of Guaranteed Income** - A fledgling business usually has a restricted cash flow, and opening expenses and, later, promotional expenses frequently outstrip the profit. The business operates at a loss for the first six to twelve months. An owner-operator frequently cannot meet personal and family financial needs.

3. **Forget Nine to Five** - Entrepreneurs are not 40-hour persons. Particularly in the early stages of the business, retail store owners frequently open and close their establishments. This means 12 to 16 hours daily, six or seven days per week. Also, many new operators feel they cannot leave their businesses for more than one or two days at a time for vacations.

4. **The Daily Grind** - Most new independent store owners are shocked to discover the amount of paperwork involved in recording the activities of a business. Accounts receivable, accounts payable, payroll, state, local, and federal taxes, and revenue require precise and detailed records that most people love to learn to hate.

5. **Maintenance Tasks** - You may have to do chores that you do not like, like maintenance and cleaning. It is a humbling experience indeed to be a new entrepreneur basking in status and prestige, then discover that the sewer grease trap is plugged and there is nobody but number one to do the task. A shortage of cash frequently prohibits "delegation" of these tasks.

Activity 3: Disadvantages

You have just read about five common disadvantages in starting your own business. There are many others that are unique to each special set of circumstances.

Take each of the five disadvantages

Risk
Sacrifice of guaranteed income
Forget nine to five
The daily grind
Maintenance tasks

Rank them in order of importance to you. Include a rationale for each disadvantage by writing a paragraph explaining why you ranked it where you did.

If you can think of any other disadvantages you wish to include, please do not hesitate to add them to the list.

Disadvantage	Rationale
_____	_____
	_____
	_____
	_____
	_____
	_____
_____	_____
	_____
	_____
	_____
	_____
	_____

(Optional)

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Discovering Potential Business Opportunity

Entrepreneurship is a non-restrictive term that means the process of organizing, managing, and being liable for a business. It makes no difference what kind of enterprise you are considering. Two questions frequently come to mind to the beginning entrepreneur: 1) What kind of business should I undertake? 2) Should I begin a new enterprise or should I buy an existing firm?

WHAT KIND OF BUSINESS SHOULD I UNDERTAKE?

This, indeed, is a very complicated question. You may have already made a decision on what kind of business to begin, but let us assume that you are "starting from scratch." You have a wide array of choices on what kind of business you would like to own, such as: retail stores, service businesses, wholesale businesses, cottage industries, or urban street sales.

1. **Retail Stores** - This is the most common and most visible of the new business enterprises. It is generally the most expensive to start and has the most competition. Retail stores that are independently owned and operated account for 95 percent of the retail sales. A few examples of retail stores are: convenience stores, specialty shops, clothing stores, hardware stores, auto parts firms, restaurants, fast-food establishments, and food marketing firms.

2. **Service Businesses** - The fastest growing segment of the small business community is made up of service firms. A service business employs people who specialize in skilled work that consumers need in the course of everyday life. Some examples are: barber shops, health spas, advertising agencies, service stations, laundromats and dry cleaners, appliance repair businesses, theaters, bowling alleys, educational services, consulting firms, and day care centers.

3. **Wholesale Businesses** - Wholesalers purchase large quantities of merchandise from manufacturers and then distribute smaller quantities to retailers. Examples of wholesalers are: drug distributors, auto parts, paint, and perishable items such as produce, flowers or meat.

4. **Cottage Industries** - With the high cost of beginning a business, many entrepreneurs have chosen to use their own homes to begin their business. A wide array of businesses now are categorized as cottage businesses, and operate successfully out of the proprietor's home. Examples are: pottery and jewelry business, furniture refinishing, and distributorship of such products as Amway or Shaklee.

5. **Urban Street Sales** - Following ancient practices of street vendors, urban street sales are making a strong come-back in recent years. The entrepreneur peddles his or her wares to passing pedestrians. In some areas, street vendors are controlled by city and state ordinances and require licenses and in some cases, must pay rental for street space.

"SHOULD I BEGIN A NEW ENTERPRISE OR SHOULD I BUY AN EXISTING FIRM?"

In order to properly evaluate that question, consider the ways of beginning a new business: develop a new enterprise, purchase a franchise, puchase an existing business, and take over a family business.

1. **Develop a New Enterprise** - Successful new small businesses are established each day. Start-up costs and competition may affect your decision on your endeavor to start a new business. Many small businesses struggle for months and years before success. Some also fail.

2. **Purchase a Franchise** - A franchise is a legal agreement to begin an independent business under the name of a proven, successful system. The **franchise** (franchise purchaser) obtains an operational system that may have taken years to develop, but has proven successful. The **franchisor** (franchise seller) usually includes training and continued help in advertising, bookkeeping, and management and operations. It truly takes many of the risks out of small business ownership. The big negative is that most reputable franchisors have significant fees to be paid **up front** (before you begin your business) and usually include percentages of profit over the term of the franchise agreement that can become burdensome and represent a significant amount of money that ordinarily represents your profit. Overall, statistics show franchise partnerships represent one of the best chances for entrepreneurs. However, sound legal advice should be sought before entering into any contractual agreement.

3. **Purchasing an Existing Business** - Another good consideration for fledgling entrepreneurs is the purchase of a firm already in existence. A business that is for sale may be operating successfully or it may be on the market because it is not profitable. A great deal of study and evaluation should precede any decision. This evaluation should include responsible advice of an attorney and an accountant who have had an opportunity to examine the records. There are many factors that can spell the success or doom of new owners/operators such as: real reasons for selling, potential profit, condition of inventory and fixtures, accounts receivable, lease agreements on building and/or equipment, customer lists, business records, franchise agreement, trademarks, business names, patents, copyrights, customer goodwill, and community opinion.

4. **Taking Over a Family Business** - Many of the same considerations for purchasing an existing business also exist for taking over a family business. In addition, you need to consider the responsibilities, objections, and potential conflicts in the family aspect of takeover.

Activity 4: Types of Businesses

Complete the blanks below, indicating the type of business each represents

a) Barber shops _____

b) Street corner flower vendor _____

c) In-home child care _____

d) Taco Bell _____

e) Mobile service station _____

f) Apparel & accessories store _____

g) Advertising agency _____

h) Anybody's drug store _____

i) Pat's Auto Parts _____

j) NAPA Auto Parts & Distributors _____

Activity 5: New or Existing Business?

There are **positive** (+) and **negative** (-) considerations why you should or should not become an entrepreneur in each of the following examples. Give at least two examples of positive reasons and two examples of negative reasons for each possibility of small business ownership.

1. **Develop a New Enterprise**

(+)	(-)
a. _____	a. _____
_____	_____
_____	_____
b. _____	b. _____
_____	_____
_____	_____

2. **Purchase a Franchise**

a. _____	a. _____
_____	_____
_____	_____
b. _____	b. _____
_____	_____
_____	_____

3. **Purchasing an Existing Business**

a. _____	a. _____
_____	_____
_____	_____
b. _____	b. _____
_____	_____
_____	_____

4. **Taking Over a Family Business**

(+)	(-)
a. _____	a. _____
_____	_____
_____	_____
b. _____	b. _____
_____	_____
_____	_____

Capstone Activity I

In this activity you will combine the learning experiences of previous activities. You should select a business that **you** would like to open and begin to develop a **statement of need** for that business and provide a **rationale** (an explanation of opinion supported by principles). References to the previous activities are shown in parentheses.

Neatness, legibility, and good grammar are important in this activity.

BUSINESS PLAN I

Type of Business

prepared by

_____

Name of Business _____

Field of Business (Activity 4) _____

_____

Description of **Product** or **Service** (Activity 4)

Statement _____

_____

Rationale _____

_____

Management Expertise (Activity 1)

Statement _____

_____

Rationale _____

_____

Is the Enterprise New or Existing? (Activity 5)

Statement _____

_____

Rationale _____

_____

Is the Enterprise Independent or Franchised? (Activity 5)

Statement _____

_____

Rationale _____

_____

ACTIVITY EVALUATION KEY

Activity

1	Answers will vary. Self-evaluation.
2	Answers will vary in order and rationale.
3	Answers will vary in order and rationale.
4	(a) Service (b) Urban street sales (c) Service (d) Retail (e) Service and/or retail (f) Retail (g) Service (h) Retail (i) Retail (j) Wholesale
5	Answers will vary. Be sure they have included both a positive and a negative consideration for each of the four possibilities.
Capstone I	Answers will vary. This is a capstone activity for the project of creating your own business at the completion of Units 1-5. Good use of grammar, good expression, and neatness are important.

Unit Test #1

Answer each question. Circle the answer of your choice.

1. Successful small business owners usually have strong organizational ability, drive, and leadership. T F

2. Self-evaluation is the least important when considering personal characteristics for an entrepreneur. T F

3. It is essential that self-evaluation be completed on a future entrepreneur before the business opens. T F

4. SBA means Small Business Association. T F

5. Entrepreneurship is a non-restrictive term that means the process of organizing, managing, and being liable for a business. T F

Fill in the blanks.

The five reasons that entrepreneurs usually start their own businesses are:

6. _____

7. _____

8. _____

9. _____

10. _____

The five disadvantages of being a small business owner-operator are:

11. _____

12. _____

13. _____

14. _____

15. _____

The five choices of the kind of business you could open are:

16. _____

17. _____

18. _____

19. _____

20. _____

21. A person who sells a franchise is called a:

_____

22. A person who purchases a franchise is called a:

_____

23. An explanation of opinion supported by principles is called a(n):

_____

There are four options to begin a new business. Name two of them.

24. _____

25. _____

KEY: TEST #1 - ENTREPRENEURSHIP AS A CAREER

1. T
2. F
3. T
4. F
5. T

6. Personal satisfaction
7. Freedom
8. Improved personal income (ANY ORDER)
9. Improved working conditions
10. Prestige

11. Risk
12. Sacrifice of guaranteed income (ANY ORDER)
13. Forget nine to five
14. The daily grind
15. Maintenance tasks

16. Retail stores
17. Service businesses
18. Wholesale businesses (ANY ORDER)
19. Cottage industries
20. Urban street sales

21. Franchisor
22. Franchisee
23. Rationale

24. (Any Two) Develop a new enterprise
25. Purchase a franchise
Purchase an existing business
Take over a family business

Unit II: Legal Considerations

COMPETENCIES

Ability to evaluate alternative business ownership opportunities

Ability to compare legal forms of ownership, and determine which is most effective for the new business

Ability to make plans for protection, security, recordkeeping, regulations, licensing and taxation

DESCRIPTION OF UNIT

This unit is best used as individual instruction although, conceivably, small groups could be used. It would be well to review each Information Sheet orally with class before individual work begins. Each unit and each activity is self-directed.

DUPLICATION

Student Information Sheets, Activities 6-10, Capstone Activities II and III, Unit Test #2.

EVALUATION

Activity Completion - Answers will vary; keys provided where appropriate.

Unit Evaluation - Students will take Unit Test at the completion of the unit. Key provided.

Project Evaluation - Each unit has a "Capstone Activity" that can be used for the final project which explores a new enterprise. At the completion of Units 1-5, have the students use each capstone activity for their project. Each capstone activity is listed as a **Business Plan**. (See Unit VI for information on the Capstone Project.)

SUGGESTED SUPPLEMENTARY RESOURCES

Preparing for Entrepreneurship, by Kenneth L. Rowe and Roger W. Hutt, for the Arizona Department of Education, September 28, 1979.

Starting Your Own Marketing Business, by Vivien King Ely and Michael Barnes, second edition, Gregg/McGraw-Hill, 1978.

Creating a New Enterprise, by Roger W. Hutt, South-Western Publishing Co., 1982.

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Unit II: Legal Considerations

COMPETENCIES

Ability to evaluate alternative business ownership opportunities

Ability to compare legal forms of ownership, and determine which is most effective for the new business

Ability to make plans for protection, security, recordkeeping, regulations, licensing and taxation

INSTRUCTIONS

You will be evaluated on three different criteria:

1. Your knowlege of the material in the information sheet measured by an objective test
2. Your quality of completion of the various activities
3. Your final capstone project--the plan you create to describe a new marketing business

Your procedure for this unit should be to:

1. Read and thoroughly understand the information presented.
2. Read the directions for each Activity.
3. Complete each Activity.
4. When you have completed the unit, take the unit test. Study the material carefully before taking the test.

Legal Forms of Ownership

Legal responsibilities are a necessary evil of operating a small business. One of the first legal decisions a new owner/operator must make is what forms of ownership is best for the new business. There are basically three choices: individual or sole proprietorship, partnership, and corporation.

There are advantages and disadvantages to each form of ownership. Factors such as **capital** needed (money to start and operate a business), experience of the owners, type of business, goods or services to be offered, tax laws and the financial risk that each person is willing to take need to be carefully considered. It is good to be flexible and many businesses begin as a proprietorship, then move to a partnership, and later expand to a corporation.

It is estimated that about 60 percent of all retail stores are owned by individual proprietors. About 15 percent of small businesses have a partnership, and the remaining 25 percent are corporations. Usually stores with annual sales in excess of $150,000 are **incorporated** (have filed the necessary legal documents to become a corporation).

1. **Individual Proprietorship** - When a person starts a business with no other person involved in the ownership of the business, it is called an individual or sole proprietorship. The advantages to this form of business is that it is relatively easy to start, given sound capital (money). Another advantage is that the business is managed by one person and business decisions do not have to be shared with other owners. Taxation and government supervision are relatively light. Problems develop in a proprietorship when business success demands expensive expansion and capital is invested already. Because there is only one owner, some business decisions are poor because there has been no opportunity to discuss the matter with other experienced people. Other disadvantages are seen as the assumption of all losses, and the closing of the business in case of death (or severe disability) of the owner.

2. **Partnership** - A partnership is when two or more investors combine to form a legal agreement to do business together. Generally, combined skills result in a more efficient operation. Increased capital enables the business to stock more merchandise, purchase better equipment, and expand the services of the store. In addition, each partner assumes liability for his/her share of the debt, and any portion that another partner cannot pay. This can be avoided by forming a legal **limited partnership** where each limited partner has no voice in the management of the business, but is liable only for the extent of the personal investment. Also, the death of one of the partners causes a complete **liquidation** (dissolving the business). It may be reorganized under a new partnership, but the legal process is time consuming and costly.

3. **Corporation** - A corporation is an artificial being, a legal person in the eyes of the law. A corporation can make contracts, own property, borrow money, and perform other activities necessary to operate a business. A corporation is formed when a group of investors apply to

the state in which they are doing business for a **charter** to do business as a corporation. Each investor or **stockholder** is liable for business losses only to the extent of personal investment. Corporations are attractive ways to generate capital necessary for expansion because they can attract large numbers of people with limited investments. It is easy for each stockholder to withdraw from the business simply by selling the investment stock. Corporations are subject to more government regulation, and this problem sometimes becomes burdensome. They are also subject to more accounting and recordkeeping than other forms of ownership. The corporation **shareholders** (stockholders) are subject to a form of double taxation. The corporation pays stiff taxes on profit, then each stockholder must claim all **dividends** (money issued by the corporation as profit to the stockholders) as personal income and are subject to state and federal income tax. Corporations form boards to control the interest of all investors and to manage the affairs of the enterprise. In this system, where ownership and management are separated in an impersonal manner, danger of irregularities and **fraud** (an act of deception or misrepresentation) exists.

Activity 6: Forms of Ownership

For each legal form of business ownership, list as many advantages and disadvantages as you can find. Review each form of ownership to find each advantage and disadvantage.

	Advantages	Disadvantages
Individual Proprietorship		
Partnership		
Corporation		

Capstone Activity II

Using the same business as you outlined in Capstone Activity I, determine what form of ownership would best suit your individual entrepreneurship project by answering the following questions. Review carefully the advantages and disadvantages of each form of ownership. Also, answer the following questions to help you determine which form of ownership will be best for you and your enterprise.

1. How soon do you want the business to be in operation?

   _____

   _____

2. Do you have all the necessary money (capital) to establish the business and carry you through the building process?

   _____

   _____

3. What extent of taxation from state and federal sources are you willing to tolerate?

   _____

   _____

4. How much liability are you willing to assume in the event the enterprise fails?

   _____

   _____

5. Can you work with other partners or owners?

   _____

   _____

6. Are you willing to share profits with other owners/investors?

   _____

   _____

7. Do you want the business to continue after you are no longer able to manage it yourself?

   _____

   _____

BUSINESS PLAN II

Legal Form

prepared by

_____

The legal form of ownership for this organization is _____

_____

Reasons for choosing this form are _____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

Permits, Licenses, and Taxes

Part of the drama of opening a new business is the numerous legal responsibilities that must be discharged before the doors can open. Each state, county and city has its own set of regulations to be satisfied prior to granting permission to operate in its district. Generally, government regulation is utilized to protect the consumer as well as the business. **Licenses** (or permits to do business) issued by government agencies are used to raise **revenue** (money to operate a government) and to regulate businesses. Local municipal governments may regulate the "environment" of their city by restricting the number of businesses, their appearance, sizes and number of signs, and the location of the business, to name a few restrictions.

County or city governments issue building permits to regulate the type of construction in their **jurisdiction** (area of legal responsibility). Health regulations, permits, and inspections are also handled by city or county government. Fees collected for licensing also are used as revenue to operate the local government.

Businesses found in violation of city, county or state **codes** (regulations for businesses) can be fined heavily, or even closed down. Although many entrepreneurs find dealing with bureaucratic organizations such as the Health Department distasteful, whenever you eat wholesome food at a restaurant, it is testimony to government regulations. Such regulations also prevent your neighbor from changing his home into a used car lot after you have spent years building a beautiful home that has increased in value each year.

Activity 7: Regulations

Fill in the blank to each question.

1. One reason for government to issue licenses is to raise _____ _____.
2. A second reason for government to issue licenses is to _____ _____.
3. _____ is the money required to operate a government.
4. Regulations that businesses must follow are sometimes called _____ _____.
5. The location of a business is approved by _____ government.

Taxes, Taxes, Taxes

We learned that there are various tax considerations to each form of legal ownership. But what kind of taxes do businesses have to pay? And to what extent? Are businesses "taxed to death"? Most small business owners/operators agree that the tax liabilities of a business and the ensuing recordkeeping responsibilities are one of the most difficult, unrewarding, and overburdening tasks that an entrepreneur must face.

Taxation is a whole different world! Some people go to college for four years for a bachelor's degree, and then two more years for a master's degree to become knowledgeable about our nation's tax structure so that they can become "entrepreneurs" and help small business owners maximize their profits and reduce their tax loads.

We shall discuss generally the five basic forms of taxation most businesses face in the course of operating an enterprise. It is advisable to contact an attorney and an accountant before establishing an enterprise to help select appropriate options too complicated for most novice business people. Also, ongoing consultation frequently simplifies tax problems and saves the operator much more money than the cost of the consultation.

These are the five general types of tax liabilities incurred by small businesses.

1. **Income Tax** - Each individual owner of a business must pay personal income tax or tax on the profit of the firm. Profit is like the salary of the individuals who operate the business. Corporations also pay income tax on their profits.

2. **Sales Tax** - Many states and city governments place a sales tax on merchandise sold. **Note**: This tax is **levied** (charged) against merchandise sold, not profit.

3. **Employment Tax** - This area of taxation includes Social Security, income tax (withheld from employees), and unemployment and disability taxes.

4. **Property Tax** - **Assets** of the organization, such as land, buildings, equipment, tools, fixtures and inventory, are taxed. The amount of tax is computed annually. Frequently land tax increases while tax on other assets such as buildings and fixtures decreases annually by a process called **depreciation** over the estimated life of the asset.

5. **Excise Tax** - Not all businesses are affected by this tax. This tax is almost always added to the retail price of the merchandise, thereby passing the cost on to the consumer. Examples of excise taxable items are alcohol, tobacco, cars, and gasoline.

Activity 8: Which Tax?

Fill in the blank on the following sentences.

1. _____ tax is charged on the personal income of each wage-earner.
2. Most states charge _____ tax in order to raise revenue to finance projects.
3. When a business owns something of value, such as land or inventory, it is called a(n)_____.
4. Social Security is just one example of a(n) _____ tax.
5. Another word for charged tax sometimes used is _____.
6. _____ is the process of decreasing the value of an asset over the estimated life of that item.
7. Good sources for advice for tax problems are a(n) _____ or a(n)_____.
8. Taxation on alcohol is an example of _____ tax.
9. Corporations also pay _____ tax on their profits.
10. _____ tax is charged against merchandise sold, not profit.

Accounting

An effective accounting system is essential to the efficient management of any enterprise. An effective accounting system is made up of many functions which can provide information relative to the financial position of the business, information for the preparation of tax liabilities, and information for effective planning and control.

Small businesses need an accurate and up-to-date account of all their transactions affecting the business. As each business transaction is identified, recorded, and summarized, it becomes a history of that enterprise in the form of periodic reports used by the owner and other decision makers. These histories are very important for internal monitoring of the progress of the business.

However, good records also facilitate **external accounting needs**. Examples of these external considerations are **accounts receivable** (customers who owe the business money), **accounts payable** (the business owes other businesses or individuals money), bank loans, payroll and government taxation.

A good resource for consultation is a **Certified Public Accountant**, or a CPA. These people have studied accounting in detail and can recommend an accounting system that is adequate for the needs of your enterprise without overdoing recordkeeping.

A major factor in the failure of 90 percent of the businesses that close is the lack of adequate accounting records. For that reason, the entrepreneur is strongly advised to seek competent help in establishing and maintaining these records.

Activity 9: Accounting Terms

Fill in the blank of each of the following sentences.

1. The initials CPA stand for _____ _____ _____ .
2. _____ _____ are monies owed to the business by customers.
3. Poor accounting procedure is a factor in _____ percent of businesses that fail.
4. Government taxation records are a good example of _____ accounting needs.
5. Business histories are important in making business _____ .

Insurance and Risk

The process of business involves a great amount of **risk** (chance for something to go wrong that can affect the stability of an individual or business). One should recognize the various ways in which loss can be incurred. A small business owner needs to be certain that he is insured against every conceivable occurrence.

There are seven major types of insurance for small businesses. Some are **optional** (at the decision of the store owner) and some are **mandated** (required by an authority).

These types of insurance are as follows:

1. **Fire Insurance** - insures the business from loss due to fire, lightning, removal of goods from the premises because of fire, and water damage caused by fire fighters.

2. **Liability Insurance** - protects the business from court judgments brought against the business because of bodily injury and/or property damage as a result of negligence. In this day where neighbors sue readily, this may be the most important line of defense against risk that a small business owner can possess. In sole proprietorships and partnerships, the owners also have unlimited liability for the losses of a business, and not just to the extent of their investment. Their liability may extend beyond the total of their investment alone, to all their personal assets. In other words, an owner could lose everything down to his/her last pair of socks if a judgment was issued against his/her business. Liability insurance protects the entrepreneur against this kind of personal disaster.

3. **Workmen's Compensation** - a state mandated program which requires that small businesses with 4 or more employees provide benefits to employees permanently injured at work. The State Industrial Commission determines the extent of payment made to such employees.

4. **Fidelity Bonds** - guarantee that your business will be reimbursed for employees who are dishonest in carrying out their work obligations. Normally, any person having access to business funds should be bonded. People who have responsibility for high price merchandise, such as expensive jewelry, should also be **bonded**.

5. **Business Interruption Insurance** - insures the business by compensating for the costs incurred because of the business being shut down because of power failure, fire, or other causes.

6. **Crime Insurance** - compensation for the losses of the business because of burglary, theft, or robbery.

7. **Business Life Insurance** - There are a number of types of insurance that are categorized under this heading. Most of them provide for the continuation of the business after the death or retirement of one or more of the owners or key people. The small business can also provide group life and health insurance, group annuity, pension plans, or individual retirement policies for employees.

8. **Automobile Insurance** - to protect the business' automobiles against collision, theft, fire, and other damages.

Activity 10: Types of Insurance

What are the purposes of the following types of insurance policies?

1. **Fire** - _____

2. **Liability** - _____

3. **Workmen's Compensation** - _____

4. **Fidelity Bonds** - _____

5. **Business Interruption Insurance** - _____

6. **Crime Insurance** - _____

7. **Business Life Insurance -** _____

_____

_____

_____

8. **Automobile -** _____

_____

_____

_____

Capstone Activity III

In this activity, you will plan the insurance coverage of the business you have identified in the previous Business Plans. Review each of the eight major types of insurance (Activity 10) and give a **rationale** for your decision to include or reject each from your Business Plan to protect against risk. Clarity of expression and neatness are important in this activity.

BUSINESS PLAN III

Risk Management

prepared by

_____

Name of Business _____

Type of Business _____

Protection Against Risk

1. **Fire** - _____
   _____
   _____
   _____
2. **Liability** - _____
   _____
   _____
   _____
3. **Workmen's Compensation** - _____
   _____
   _____
   _____
4. **Fidelity Bonds** - _____
   _____
   _____
   _____

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5. **Business Interruption Insurance** -

6. **Crime Insurance** -

7. **Business Life Insurance** -

8. **Automobile** -

ACTIVITY EVALUATION KEY

Activity	
6	Answers will vary. Each section should include more than one advantage and/or disadvantage.
Capstone II	Answers will vary.
7	1. Revenue 2. Regulate businesses 3. Revenue 4. Codes 5. Local
8	1. Income 2. Sales 3. Asset 4. Employment 5. Levied 6. Depreciation 7. Attorney, Accountant (either order) 8. Excise 9. Income 10. Sales
9	1. Certified Public Accountant 2. Accounts Receivable 3. 90 4. External 5. Decisions
10	Answers will vary.
Capstone III	Answers will vary. Neatness and clarity of writing expression are important in this activity.

Unit Test #2

Answer each question. Circle the answer of your choice.

1. One of the first legal decisions a new owner/operator must make is what form of ownership is best for the new business. T F

2. If an organization is incorporated, it has filed the necessary legal documents to become a corporation. T F

3. Revenue is **not** needed to operate a government. T F

4. An **asset** is something of value. T F

5. Depreciation is when a banker does not allow your request for a business loan. T F

Fill in the blank on the following sentences.

6. One reason for government to issue licenses is to raise _____ .

7. A second reason for government to issue licenses is to _____ business.

8. _____ is the money to operate a government.

9. Regulations that businesses must follow are sometimes called _____ .

10. The location of a business is approved by _____ government.

11. _____ tax is charged on the personal income of each wage-earner.

12. Most cities and towns charge _____ tax in order to raise revenue to finance municipal projects.

13. When a business owns something of value, such as land or inventory, it is called a(n)_____ .

14. Social Security is just one example of a(n) _____ tax.

15. When **charged** tax, another word sometimes used that means the same is _____ .

16. _____ is the process of decreasing the value of an asset over the estimated life of that item.

17. A good source for advice for tax problems is a(n) _____ and/or a(n) _____ .

18. Taxation on alcohol is an example of _____ .

19. Corporations also pay _____ tax on their projects.

20. _____ tax is charged merchandise sold, not profit.

List five of the eight major types of insurance that can be used by small businesses.

21. _____

22. _____

23. _____

24. _____

25. _____

UNIT TEST #2 - LEGAL CONSIDERATIONS

KEY

1. T
2. T
3. F
4. T
5. F
6. Revenue
7. Regulate
8. Revenue
9. Codes
10. City or County (local)
11. Income
12. Sales
13. Asset
14. Employment
15. Levied
16. Depreciation
17. Attorney, Accountant (either order)
18. Excise
19. Income
20. Sales

		Fire
21.		Liability
22.	**Any**	Workmen's Compensation
23.	**Five**	Fidelity Bonds
24.		Business Interruption Insurance
25.		Crime Insurance
		Business Life Insurance
		Automobile

UNIT III. Selecting a Location

COMPETENCIES

Ability to collect and evaluate the necessary data for a location decision

Appreciation of the importance of location to the success of a business

DESCRIPTION OF UNIT

This unit is best used as individual instruction although, conceivably, small groups could be used. It would be well to review each Information Sheet orally with the class before individual work begins. Each unit and each activity is self-directed.

Activity #12 needs to be completed outside of class.

DUPLICATION

Student Information Sheets, Activities 11, 12, Capstone Activity IV, and Unit Test #3.

EVALUATION

Activity Completion - Answers will vary; keys provided where appropriate.

Unit Evaluation - Students will take Unit Test at the completion of the unit. Key provided.

Project Evaluation - Each unit has a "Capstone Activity" that can be used for the final project which explores a new enterprise. At the completion of Units 1-5, have the students use each capstone activity for their projects. Each capstone activity is listed as a **Business Plan**. (See Unit VI for information on the Capstone Project.)

SUGGESTED SUPPLEMENTARY RESOURCES

Preparing for Entrepreneurship, by Kenneth L. Rowe and Roger W. Hutt, for the Arizona Department of Education, September 28, 1979.

Starting Your Own Marketing Business, by Vivien King Ely and Michael Barnes, second edition, Gregg/McGraw Hill, 1978.

Creating a New Enterprise, by Roger W. Hutt, South-Western Publishing Co., 1982.

Retail Merchandising, by Harland E. Sampson, Wayne S. Little, John W. Wingate, ninth edition, South-Western Publishing Co., 1982.

Unit III: Selecting a Location

COMPETENCIES

Ability to collect and evaluate the necessary data for location decision

Appreciation of the importance of location to the success of a business

MATERIALS NEEDED

Demographic information for your locality available through the local Chamber of Commerce that gives statistics on various businesses in your community.

INSTRUCTIONS

You will be evaluated on three different criteria:

1. Your knowledge of the material in the information sheet measured by an objective test
2. Your quality of completion of the various activities
3. Your final capstone project, the plan you create to describe a new marketing business

Your procedure for this unit should be to:

1. Read and thoroughly understand the information presented.
2. Read the directions for each Activity.
3. Complete each Activity.
4. When you have completed the unit, take the unit test. Study the material carefully before taking the test.

Personal Considerations of Location

Time and money usually limit the amount of research small businesspersons can do on their own to survey alternative geographic areas other than their "home" community. Yet decisions that can affect location need to be made based on personal considerations.

Personal questions that need to be asked are:

1. Should you locate near or away from friends and relatives?
2. Do you have the available funds and time to research other areas properly?
3. Do you desire to live in a particular location other than your "home" community?
4. Do you have and can you take advantage of established business connections in a location?
5. What kind of facility would you prefer? (i.e. free-standing or included in a business group or shopping mall)
6. There may be other considerations that you can think of that are unique to you.

Activity 11: What's Important to Me?

Identify the town, city, or geographic area where you plan to locate your business. **Discuss** and **explain** the reasons for your choice based on each of the six questions asked in the Information Sheet for Activity 11. In addition, list at least **one** personal consideration that is unique to you and your proposed enterprise, and discuss and explain it.

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

Unique Consideration - _____

Economic Considerations of Location

In addition to personal considerations, your decision to locate a business in a particular area should be made only after careful analysis of its economic characteristics. Economic characteristics include, but are not restricted to, the following:

1. **Population Trends** - It is extremely important to know the trading area which you will serve. For example, how many males, females, families, and predominant age ranges. Information such as this is useful when planning merchandise assortment. It would be disastrous to, say, open a skateboard shop in a retirement community. The point is, your merchandise must be appropriate for your population mix. The local Development Board, Chamber of Commerce, the State, and other sources have **demographic** information (referring to population).

2. **Distribution of Purchasing Power** - It is equally important to understand the local predominant types of family income structure for your location selection. Similar in nature to the example above, an entrepreneur may want to reconsider opening a tennis pro shop in the inner city. Along with a background information on salary range, it is helpful to know what types of occupations people are engaged in, how many homeowners, types of leisure activities, and available means of transportation. Again, the Chamber of Commerce and the State Development Board are good resources for this information.

3. **Competition** - Good location selection is contingent upon complete analysis of competition. How many similar stores are in your competitive area? What is the amount of sales volume generated by your competition? Is there room for another entry into the field? Answers to these questions will go far in determining location selection for your fledgling business. Information for these vital statistics are available through the same sources as mentioned above. Some independent observation of sites may also reveal further details to you which are not evident in statistics. Examples are: How many of these stores look prosperous? How many look like they are barely getting by? How many similar stores went out of business last year?

Activity 12: Community Observation

Using the following chart, visit several competing businesses and compare their various strengths and weaknesses. Identify the businesses. Ideally, you should select businesses similar to that you have selected for your capstone project.

Activity 12: Community Observation

	Name Address	Name Address	Name Address	Name Address	Name Address
Store Appearance					
Products and/or Services					
Advertising Activity					
Price Lines					
Traffic by Customers					

Capstone Activity IV

Now that you have made the decision on your type of business and its product and/or service, the next step is to identify the best location and be able to provide a rationale for your decision.

If you have completed **Activities 11 and 12**, you should have a good idea about what criteria of site location should be taken into consideration. In this activity, continue your Business Plan that has been established in the previous **Capstone Activities**. Clarity of expression and neatness are important in this activity.

BUSINESS PLAN IV

Location

prepared by

_____

Name of Business _____

Type of Business _____

Site Location _____

_____

_____

Rationale

Personal Considerations - _____

_____

_____

_____

Economic Considerations

Population Trends - _____

_____

_____

_____

Distribution of Purchasing Power - _____

_____

_____

_____

Competition - _____

_____

_____

_____

ACTIVITY EVALUATION KEY

Activity	
11	Answers will vary.
12	Answers will vary. Activity needs to be completed outside of class.
Capstone IV	Answers will vary. Clarity of expression and neatness are important in this activity.

Unit Test #3

Answer each question. Circle the correct answer.

1. In researching a business, time and money may limit the amount small businesspersons can do on their own. T F

2. Whether you should locate your business near or far away from friends and relatives is an example of an economic characteristic. T F

3. Whether you have the available time to research other areas for location is a personal consideration. T F

4. "Free-standing" means you do not have to pay rent. T F

5. Demographic refers to population. T F

6. Competition is the least important of the economic characteristics. T F

7. The concept of distribution of purchasing power means you should consider opening a business in an inner-city location to distribute the purchasing dollar across all demographic areas. T F

8. A good source of demographic information is the Optimist Club. T F

9. An example of a population trend is the age range of the individuals who live in a certain area. T F

10. Independent observation is a poor means of evaluating your competition. T F

UNIT TEST #3 - SELECTING A LOCATION

KEY

1. T
2. F
3. T
4. F
5. T
6. F
7. F
8. F
9. T
10. F

UNIT IV: Getting the Enterprise Started

TEACHER INSTRUCTIONS

COMPETENCIES

Ability to identify potential sources for financing the new business

Ability to project a sales forecast for the first year of operation

Ability to prepare a statement of opening expenses to open a new business

DESCRIPTION OF UNIT

This unit is best used as individual instruction although, conceivably, small groups could be used. It would be well to review each Information Sheet orally with the class before individual work begins. Each unit and each activity is self-directed.

DUPLICATION

Student Information Sheets, Activity 13, Capstone Activities V and VI and Unit Test #4.

EVALUATION

Activity Completion - Answers will vary; keys provided where appropriate.

Unit Evaluation - Students will take Unit Test at the completion of the unit. Key provided.

Project Evaluation - Each unit has a "Capstone Activity" that can be used for the final project which explores a new enterprise. At the completion of Units 1-5, have the students use each capstone activity for their project. Each capstone activity is listed as a **Business Plan**. (See Unit VI for information on the Capstone Project.)

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UNIT IV: Getting the Enterprise Started

COMPETENCIES

Ability to identify potential sources for financing the new business

Ability to project a sales forecast for the first year of operation

Ability to prepare a statement of opening expenses to open a new business

INSTRUCTIONS

You will be evaluated on three different criteria:

1. Your knowledge of the material in the information sheet measured by an objective test
2. Your quality of completion of the various activities
3. Your final capstone project, the plan you create to describe a new marketing business

Your procedure for this unit should be to:

1. Read and thoroughly understand the information presented.
2. Read the directions for each Activity.
3. Complete each Activity.
4. When you have completed the unit, take the unit test. Study the material carefully before taking the test.

Sources of Money

Unless you are fabulously wealthy and money is not a problem, your next challenge in your entrepreneur experience is to arrange for the financial support of your enterprise. Good financial backing and support are not minor matters. In order to appreciate the concepts involved in financing business, it is important that you take a few minutes and study some of the concepts of financing.

Capital, simply put, is money. In a business sense, however, you must look at capital in three different perspectives. First, **Fixed Capital** is money invested in assets such as land, buildings, fixtures, and equipment. Fixed capital is invested capital and is hard to regain quickly in a **liquid** form (that is, easily spendable to purchase inventory and/or supplies, payroll, etc.). Second, **Working Capital** is money that is liquid, and can be used to purchase merchandise for resale, or to pay other expenses like payroll, rent, etc.

Important, but often overlooked, is the need to have a **Cash Reserve Fund** that is also a part of the **Working Capital** of a business. This third capital consideration is money available to cover unexpected expense. It should be remembered that it can take from three to six months before most stores will bring in enough money to cover expenses. By planning an adequate **Cash Reserve Fund**, a new store owner can relieve a great deal of financial pressure.

Sources of Capital

Banks and lending institutions are very hesitant to lend money to new enterprises because of the risk of losing their principal investment. **Principal** is the amount of money borrowed. **Interest**, or the amount of profit a lending institution earns, is charged on the **principal**.

Usually banks will favor loan applications for people who have substantial **equity** (owner's share of money invested in the business). It demonstrates to the loan officer that the entrepreneur is willing to stake significant capital and investment to insure the success of the enterprise.

Usually an entrepreneur needs to balance personal investment with other sources of funds to reach needed capital. In addition to **personal investment or equity**, there are other sources of retail store capital. These sources include banks and lending institutions, the Small Business Administration, partnerships, corporations and trade credit.

1. **Banks** - Banks and loan organizations are a major source of money for entrepreneurs. Both **short-term** and **long-term** loans (referring to the length of the contracts) are available, with the emphasis on short-term.

2. **The Small Business Administration or SBA** - This type of resource is frequently used to purchase fixed assets, such as land and buildings. SBA also requires proof that the needed capital cannot be raised elsewhere. The SBA usually guarantees the loan at another financial institution, such

as a bank, and agrees to repay 90 percent of the loan in the event the borrower defaults (fails to pay).

3. **Partnerships** - Perhaps the easiest way to raise capital is to take on a partner. A partner can bring a significant sum of money into a business.

4. **Corporations** - Many companies raise capital by using corporate financing, or the selling of **stock** (part ownership), in the business. Owners of stock are entitled to a share of the profits (dividends) of the business. Usually new businesses are not incorporated.

5. **Trade Credit** - is an excellent way to raise capital for merchandise for resale. Store suppliers agree to postpone payment for up to 90 days, at which time the transaction is handled as a cash sale. If the owner goes past the agreed deadline, a service charge is added to the amount of the bill, usually two percent.

Activity 13: Money for the New Business

Answer each question completely. **Use complete sentences.**

1. What is equity? _____

2. What is risk associated with equity capital? _____

3. What is trade credit? _____

4. Is trade credit a good concept for a good owner/operator? Why? _____

5. What is meant by a SBA guaranteed loan? _____

Sales Forecasting

The ability to project or **forecast** monthly or annual volume is a necessary skill in the sound planning of any enterprise. In order to know the size of the store, the quantity of merchandise to buy, the number of employees to hire, and whether or not the business is generating enough volume to insure profit, the entrepreneur will need to predict a sales volume. Because so many important business decisions are contingent upon this figure, it is sound advice to seek counsel of a competent attorney and/or accountant before you visit a bank for a loan or purchase fixtures or merchandise.

There are four basic steps in making a **forecast**.

1. The first step to forecasting is to determine the estimated sales for all other establishments in your field of enterprise that are your competitors. This information is frequently available through local Chambers of Commerce or the library. The Trade Association for your line of business is also a good resource. Your banker and/or accountant is also a valuable source of information. If you can talk to a business person in your field, but not in your community (competition), there is a chance a candid discussion may result.

2. The next step is to estimate what your estimated share of the market should be for your business. In order to determine what your market share will be, follow this simple formula:

   $$\text{(2) Your Market Share} = \frac{\text{(1) Estimated Total Sales of Competitors + you}}{\text{(3) Number of Competitors}}$$

3. The number of competitors can be found in the same resource as in Step 1, or you may want to observe your competition, seek consultation, and adjust the number of your competitors based on your research.

4. Be advised that your **actual volume figure** will probably be lower than your **market share** as determined in Step 2. A good percentage to figure as your **actual estimated volume** is 70 percent of your **market share**. This allows for the fact that customers tend to be loyal.

Capstone Activity V

Using the information on Sales Forecasting, calculate an Estimated Annual Sales Volume for your Capstone Business. Be sure to indicate the sources of your information.

BUSINESS PLAN V

Sales Forecast

prepared by

_____

Name of Business _____

Type of Business _____

1. Estimated Total Annual Sales of Competition _____
2. Number of Competitors _____
3. Estimated Annual Market Share _____
4. Estimated Annual Sales Volume _____
5. Sources of above information
    1. _____
    2. _____
    3. _____
    4. _____

Start-Up Costs

Start-up costs are the expenses you will have in setting up shop. Some of the expenses are **on-going** (meaning they will be continuous, usually monthly) such as rent or payroll. Other expenses are **one-time costs**, such as the cost of placing a sign on the front of the building. Such expenses generally do not need to be repeated. Other examples of each type of expense are as follows:

On-going

salaries
rent
advertising
transportation
telephone
gas
water
electric
insurance
taxes
interest on loans
repairs and maintenance
consultation fees
employee training
unexpected needs

One-time costs

fixtures
equipment
deposits
installation charges
beginning inventory
consultation fees
licenses and permits
opening advertising program
cash

At this point, it is appropriate to introduce you to Dun & Bradstreet, Inc. Dun & Bradstreet is a nationwide research organization that provides statistical information regarding almost every aspect of business and nearly every field of enterprise. It is a rich source of information for a new store owner to determine "how much" and "how many" are typical of others in the same general field. It is also a good reference for existing business to determine if their expenses are in line with their competitors nationwide.

Volumes of Dun & Bradstreet statistics are available at most libraries.

For the purpose of classroom activity, we will use some average national percentages to arrive at future expense costs and income. It would be too involved for the average ME student to research each single business expense. In Capstone Activity V we learned how to determine your **annual estimated volume**. Use this figure wherever annual sales are called for.

The following is a reasonable breakdown on the percentage of annual sales that small retailers experience for expenses. Of course, different types of businesses will vary in their percentages, but for the completion of this **Project**, assume you will be abiding by the following breakdown:

Expense	**Percent of Volume**
cost of goods sold	61.02
rent	3.57
depreciation	1.13
repairs	.44
salaries	9.41
fringe benefits	1.50
taxes, licenses, fees	1.97
insurance	1.10
legal and accounting fees	.60
bad debt	.14
telephone	.27
utilities	1.60
supplies	.39
security	.96
advertising and promotion	3.00
interest	.60
postage and freight	.60
travel	.80
dues and subscriptions	.10
bank service charge	.70
credit card fees	.50
miscellaneous	1.00
Net Profit (before taxes)	9.20
	100.00%

Capstone Activity VI

START-UP COSTS

Well, it seems that we are getting complicated. Actually, take heart, the end is in sight. With the Expense Percentage Chart on the previous page, along with your **actual annual estimated volume** from Activity 13, you can now determine your **annual** and **monthly estimated expenses**. For example, if your **actual annual estimated volume** is

$100,000

to arrive at your **annual rent expense**, take 3.57% (from percentage list on previous page) of the $100,000.

Example

Take 3.57% of $100,000 = $3570

Your annual rent expense is **$3570**.

To determine your monthly rent expense, simply divide your annual rent expense by 12 (number of months in the year - but you knew that!).

Example

$3570 ÷ 12 = $297.50

Your monthly rent expense is **$297.50**

Simple? YOU BET!

ASSIGNMENT

For most business enterprises you need to have money to pay three months expenses at the beginning of the business. Some banks and lending sources recommend six months, but for this **Project** we will assume **three months**.

On-Going Expenses

1. Identify which expenses apply to your enterprise and enter expense name on column 1 of **Business Plan VI**.

2. Compute **monthly estimated expenses** in each expense identified and enter on the **Business Plan VI**. Enter your computed expense in column 2 next to appropriate expense.

3. Compute three months estimate for each expense and enter on **Business Plan VI** in column 3.

One-Time Costs

In order to be accurate in your estimation of start-up costs, you need to include any one-time costs that you estimate your business will incur. As these are usually a one- time expense, a three-month projection is not necessary.

Review all the one-time costs from "Start-up Costs." Choose those costs that are appropriate for your enterprise. Enter these costs in the correct column on your **Business Plan** of **One-Time Costs**.

BUSINESS PLAN VI

Statement of On-going Expenses

prepared by

_____

Name of Business _____

Type of Business _____

On-going Expenses	Monthly Expenses	3-Month Expenses
Example (Rent)	(297.50)	(892.50)
	Total	

BUSINESS PLAN VI

Statement of One-Time Expenses

prepared by

_____

Name of Business _____

Type of Business _____

One-Time Expense	Amount
Total	

ACTIVITY EVALUATION KEY - UNIT IV

Activity	
13	Answers will vary.
Capstone V	Answers will vary. Neatness and clarity of expression are important.
Capstone VI	Answers will vary. Neatness and clarity of expression are important.

Unit Test #4

Answer each question. Circle the correct answer.

1. Capital, simply put, is money. T F
2. Liquid capital means easily spendable. T F
3. Cash Reserve Fund is not considered capital. T F
4. Principal is the amount of interest charged on a loan. T F
5. Equity is the amount of money the owner receives when the business fails. T F
6. In corporations, profit paid to stockholders is called dividend. T F
7. Trade credit is a term that is used when you trade an asset for purchasing merchandise for resale. T F
8. The ability to accurately predict your sales volume is called forecast. T F
9. A good rule is that your Actual Estimated Volume should be about 70 percent of **Your Market Share**. T F
10. On-going expenses are usually paid monthly. T F

UNIT TEST #4 - GETTING THE ENTERPRISE STARTED

KEY

1. T
2. T
3. F
4. F
5. F
6. T
7. F
8. T
9. T
10. T

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UNIT V: Marketing Strategy

TEACHER INSTRUCTIONS

COMPETENCIES

Ability to develop merchandising, sales promotion, and personnel policies to attract and keep customers

Ability to prepare an organization chart showing the chain of command for the business

DESCRIPTION OF UNIT

This unit is best used as individual instruction although, conceivably, small groups could be used. It would be well to review each Information Sheet orally with the class before individual work begins. Each unit and each activity is self-directed.

DUPLICATION

Student Information Sheets, Capstone Activities VII, VIII, IX and X, and Unit Test #5.

EQUIPMENT AND SUPPLIES

Demographic information for your locality available through Chamber of Commerce that gives statistics on various businesses in your community.

EVALUATION

Activity Completion - Answers will vary; keys provided where appropriate.

Unit Evaluation - Students will take Unit Test at the completion of the unit. Key provided.

Project Evaluation - Each unit has a "Capstone Activity" that can be used for the final project which explores a new enterprise. At the completion of Units 1-5, have the students use each capstone activity for their project. Each capstone activity is listed as a **Business Plan**. (See Unit VI for information on the Capstone Project.)

SUGGESTED SUPPLEMENTARY RESOURCES

Preparing for Entrepreneurship, by Kenneth L. Rowe and Roger W. Hutt, for the Arizona Department of Education, September 28, 1979.

Starting Your Own Marketing Business, by Viven King Ely and Michael Barnes, second edition, Gregg/McGraw-Hill, 1978.

Creating a New Enterprise, by Roger W. Hutt, South-Western Publishing Co., 1982.

Retail Merchandising, by Harland E. Sampson, Wayne S. Little, John W. Wingate, ninth edition, South-Western Publishing Co., 1982.

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Unit V: Marketing Strategy

COMPETENCIES

Ability to develop merchandising, sales promotion, and personnel policies to attract and keep customers

Ability to prepare an organization chart showing the chain of command for the business

INSTRUCTIONS

You will be evaluated on three different criteria:

1. Your knowledge of the material in the information sheet measured by an objective test
2. Your quality of completion of the various activities
3. Your final capstone project, the plan you create to describe a new marketing business

Your procedure for this unit should be to:

1. Read and thoroughly understand the information presented.
2. Read the directions for each Activity.
3. Complete each Activity.
4. When you have completed the unit, take the unit test. Study the material carefully before taking the test.

Customer Profile

A customer profile is a description of the typical customer you would like to serve. It is unlikely that you will attract customers from all racial, religious and socio- economic backgrounds. Therefore, you need to try to identify what you wish to represent to your customer. To use an example from a previous activity, it would be a waste of time and energy to promote skate-boards in a retirement community. A merchant who does not focus on his customer profile and fails to develop a **target market** (a specific segment of the total available market can be identified as a **market segment** to be focused or **targeted**) risks business failure.

In developing a **customer profile**, some of the statistics you used to select a location may be useful. Such information as age range, married or single, average income, leisure activities and transportation are useful in determining the customer mix in your total market. In addition, close observance of competition will frequently reveal useful data. If you are purchasing an existing business, one that already has a sales history, close scrutiny of the company's records can be revealing. Another resource that can be used is recent marketing surveys of the area. Frequently, marketing research organizations have results of studies for demographic areas. Or you can conduct your own study, or ask for outside help from a local MDE class. Whatever the method, close analysis of who your customers will be enhances the success possibility of any enterprise. Failure to consider this issue can be harmful.

What kinds of business decisions are dependent upon identifying your target market? Consider the implications of the following: image, pricing, product, customer service and advertising.

1. Image - is the mental picture that customers have when they think of your business. Image is created by a variety of ways. The appearance of your store is one of the first clues for a customer. Consider the difference in store appearance between the two well-known retail store giants of Family Mart and Woolco. Each store is making a statement about their image that helps to attract customers because of the appearance of their respective stores. Other factors that influence image are pricing, product, customer service and advertising. The quality and quantity of each of these factors greatly influence the image of a business as perceived by the customer.

2. Pricing - is basically what **range of prices** of merchandise you plan to carry, and how much profit you expect to earn from each piece of product. If you have been careful in your market analysis, you have a concept of the prices charged by competition, and what prices can be supported by the local economy. **Profit** is integrated into pricing policy. Profit through pricing affects the amount of money that can be spent on appearance, customer service, advertising and assortment.

3. Product - How wide or how narrow your merchandise assortment (selection) will be affects the image of your establishment. In order to attract business from your target market, you must have a well balanced, appealing blend of prices and products that is consistent with your profit hopes and image of your business. You cannot be the best of all worlds to all customers. Analysis of competition and current trends is important in determining what an owner/operator should stock.

4. Customer Service - How much help you plan to provide to potential customers is important to consider, even before establishing the pricing policy. Usually customer services are additional expenses that affect the profit of a business. Examples of these costly expenses are gift wrapping, mailing service, home delivery, additional sales personnel, and customer satisfaction policies. Therefore, it is essential that wise decision-making precedes this consideration. Remember, improved customer service can mean improved customer traffic, but not necessarily, and the results are hard to measure.

5. Advertising - The quality and the quantity of the advertising will help establish the image of a business. Decisions on whether to produce your own advertisements, or hire an advertising agency and thereby establish professional quality, are decisions that are dependent upon the results of careful analysis of your target market and customer profile. The decision of which media (T.V., newspaper, radio, door-to-door circulars, etc.) to use depends on careful consideration.

By carefully considering all of these factors, an entrepreneur can minimize business expense for attracting business and maximize the results. By identifying who the customer will be, the business person can design strategy to attract that customer directly and not "blindly shoot in the dark."

Capstone Activity VII

In the following activity, consider carefully the following questions regarding your customer profile. Provide a **rationale** for each of your answers. Use a separate sheet if necessary.

BUSINESS PLAN VII

Customer Profile

prepared by

_____

Name of Business _____

Type of Business _____

1. Discuss the profile of your target market customers. _____

   _____

   _____

   _____

   Rationale _____

   _____

   _____

2. How will you attract your customer from established relationships with your competition?

   _____

   _____

   _____

   Rationale _____

   _____

   _____

3. Is business adequate for your competition? _____

_____

_____

_____

Rationale _____

_____

_____

4. What is the income range of your profile customer, and how does that relate to your business?

_____

_____

_____

Rationale _____

_____

_____

5. Should you offer goods and/or services not offered by competition to your profile customer?

_____

_____

_____

Rationale _____

_____

_____

Sales Promotion

Sales Promotion covers all the activities that are used to generate and increase sales. In order to be consistent in your approach to sales promotion, you need to develop a **marketing strategy**, or an organized and consistent approach to business. Sales promotion is involved in the following concepts: pricing, personal selling and advertising.

1. **Pricing** - When determining prices for your goods or services, you must consider these issues: a) your costs must be covered, b) prices affect the way customers view your business and ultimately affect your sales volume, c) you want to earn a fair profit. Careful consideration must be given to pricing. Generally, industry- wide retailers enjoy a 40 percent gross profit on their sales. That means that for every dollar spent in retail sales, 60 cents is the cost of the merchandise and 40 cents is the profit before expenses are paid. All expenses, such as rent, telephone, wages, etc. must be paid out of the 40 cents. **Net profit** (after expenses are paid) is usually between 5 and 10 percent.

2. **Personal Selling** - is when a sales person makes direct contact with a customer. As part of your marketing **strategy**, you want to increase your profit. The most effective way to do this is to have a strong personal selling program. This can consist of a daily quota system, a sales incentive program (where part of salary is contingent on sales), training, etc. It is also your most **cost-effective** (least expensive) way to increase volume and attract loyal customers.

3. **Advertising** - is non-personal in nature and you approach your customers through a variety of **media** (carriers of advertisements). Advertising is very expensive, although essential to stay competitive. Advertising needs to be carefully budgeted or it will destroy your profit structure and may cause the business to close. Some examples of advertising media are radio, television, newspapers and magazines. There are many many other forms of advertising that can be used that are less expensive, but their **reach** (ability to attract the customer) is limited.

Capstone Activity VIII

A. Based on the Business Expense Percentage Chart listed in **Capstone Activity VI**, find out what your annual budget will be for advertising by taking your **annual advertising percentage** of your **Actual Annual Volume Estimate**.

Annual Advertising Budget = $ _____

B. Compute your **Monthly Advertising Budget** by dividing your **Annual Advertising Budget** by 12.

Enter these monthly figures for each month in the following chart under **Average Monthly Advertising Budget**.

Adjust your budget for the months that you feel you need to increase your budget by taking equal amounts away from other, slower months (i.e. to increase December by $50, subtract $50 from March, or any other month you feel may be slower). Enter these adjusted figures under the column **Adjusted Average Monthly Advertising Budget**. If you adjust any monthly budget amount, provide a brief explanation in the "Rationale" column.

BUSINESS PLAN VIII

Advertising Budget

prepared by

_____

Name of Business _____

Type of Business _____

Annual Advertising Budget $_____

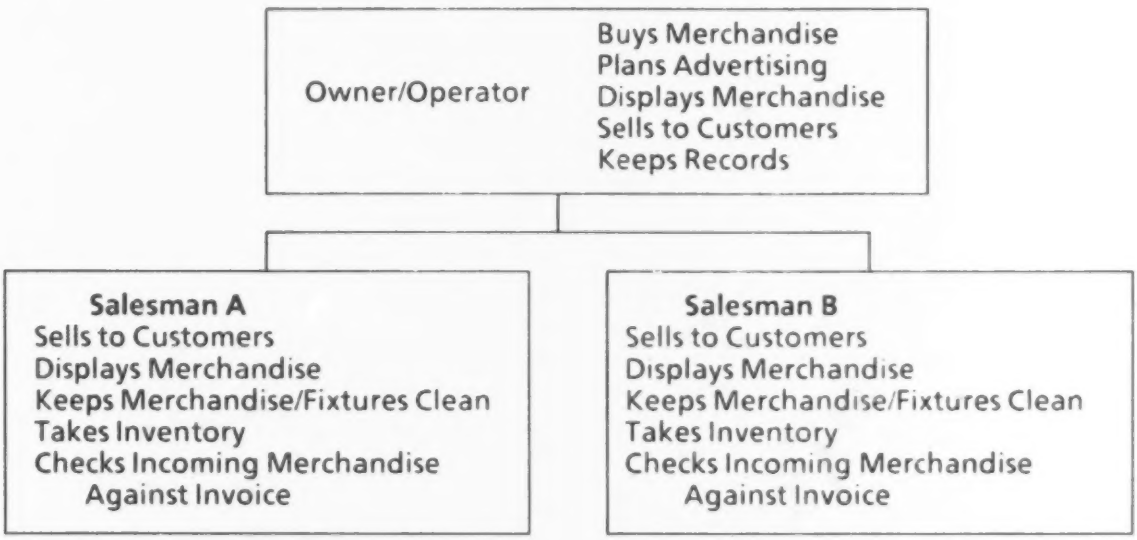
	Average Monthly Advertising Budget	Adjusted Average Monthly Advertising Budget	Rationale
January	$_____	$_____	_____
February	_____	_____	_____
March	_____	_____	_____
April	_____	_____	_____
May	_____	_____	_____
June	_____	_____	_____
July	_____	_____	_____
August	_____	_____	_____
September	_____	_____	_____
October	_____	_____	_____
November	_____	_____	_____
December	_____	_____	_____

Personnel and the New Business

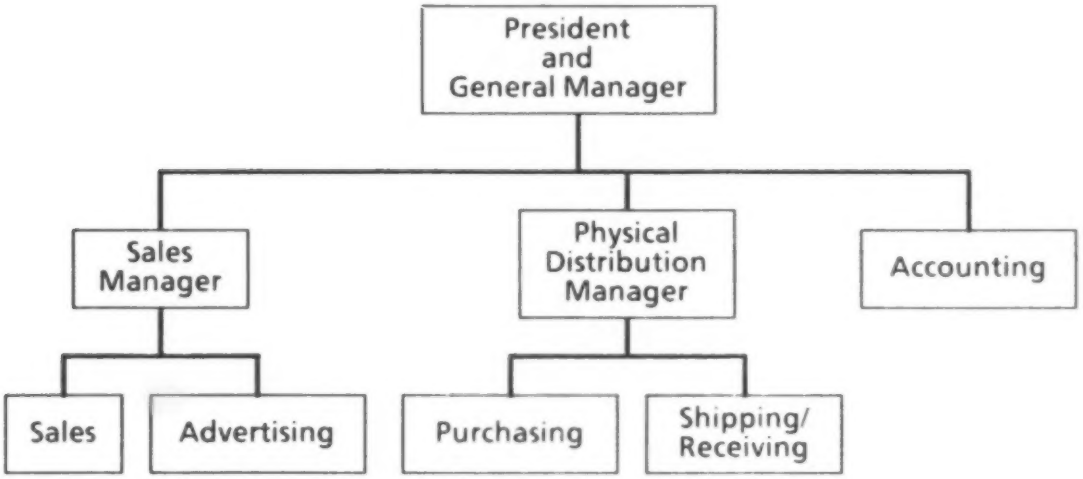
The issue of **personnel** (employees) is no less important to the success of an enterprise than any other consideration that we have studied. In fact, consider that wages are frequently an entrepreneur's largest **controllable expense** (expenses over which a manager can exercise regular control). If an owner/operator attempts to hire too many people, or pays them too much, or is paying excessive amounts of money for an employee benefit program, profit can disappear, and the business will close. On the other hand, if a business pays its employees less, offers fewer fringe benefits, or has other unattractive personnel policies, it may lose qualified workers to competing businesses. Some typical employee benefits and/or services are:

- Vacations
- Holidays
- Sick-Leave
- Group Insurance
- Free Parking
- Christmas Bonus
- Profit Sharing
- Suggestion Awards
- Credit Unions
- Education Plans
- Employee Discount
- Employee Cafeteria
- Recreational Facilities

Also involved in the issue of personnel is the chain of command. In small organizations, the chain of command is easy to follow, but as the enterprise grows, who answers to whom? An example of a simple organization chart follows. Note that each specific responsibility is listed for each number.



As an organization grows and becomes more complex, organization charts must adapt. This is an example for a slightly larger business.



Capstone Activity IX

Remembering that payroll is your largest controllable expense, plan a personnel policy regarding payroll. Address the issues of minimum wages, raises and fringe benefits.

BUSINESS PLAN IX

Personnel Policy

prepared by

_____

Name of Business _____

Type of Business _____

Minimum Wage _____

_____

_____

Raises _____

_____

_____

Fringe Benefits _____

_____

_____

_____

_____

_____

_____

Capstone Activity X

Using the models on the previous pages, plan an organization chart for your own business, complete with a brief listing of responsibilities.

BUSINESS PLAN X

Organization Chart

prepared by

_____

Name of Business _____

Type of Business _____

Organization Chart

ACTIVITY EVALUATION KEY - UNIT #5

Capstone VII	Answers will vary; evidence should show some thought and research.
Capstone VIII	Answers will vary, but should be mathematically correct.
Capstone IX	Answers will vary. Has the student been reasonable?
Capstone X	Answers will vary. Has the student been reasonable?

Unit Test #5

Answer each question. Circle the correct answer.

1. A customer profile is a description of the typical customer you would like to serve. T F
2. Sales promotion comprises all the activities that are used to generate and increase sales. T F
3. Gross profit is what remains after all expenses have been paid. T F
4. Cost-effective is the cheapest way to sell merchandise. T F
5. Media are the carriers of advertising. T F
6. Payroll is usually the largest single expense that a business has control over. T F
7. A market segment is a part of a supermarket, such as the produce department. T F
8. A business image is the mental picture formed by customers by their association with a business. T F
9. The only consideration in establishing price of merchandise is what your surveys have shown the customer can afford to pay. T F
10. Customer service is waiting on the customer, but not other services such as gift wrap and home delivery. T F

UNIT TEST #5 - MARKETING STRATEGY

KEY

1. T
2. T
3. F
4. T
5. T
6. T
7. F
8. T
9. F
10. F

Unit VI: Capstone Project

TEACHER INSTRUCTIONS

COMPETENCIES

Ability to identify the personal characteristics, skills, and sacrifices required for success for an entrepreneur

Ability to compare the advantages and disadvantages of ownership with those of working for someone else

Ability to evaluate alternative business ownership opportunities

Ability to prepare a description and rationale for a marketing business opportunity

Ability to determine the importance of location to the success of a business

Ability to collect and evaluate the necessary data for location decision

Ability to develop merchandising, sales promotion, and personnel policies to attract and keep customers

Ability to identify potential sources for financing the new business

Ability to prepare a statement of opening expenses needed to open a new business

Ability to project a sales forecast for the first year of operation

Ability to compare the legal forms of ownership and determine which is most effective for the new business

Ability to prepare an organization chart showing the chain of command for the business

Ability to make plans for protection, security, recordkeeping, regulations, licensing and taxation

DESCRIPTION OF UNIT

The Capstone Project is a collection of the ten Capstone Activities that the student has completed during the Entrepreneurship Unit.

DUPLICATION

Student Instruction Sheet

EQUIPMENT AND SUPPLIES

Students will need their completed Capstone Activities.

EVALUATION

The criteria for evaluating the Capstone Activities are included in the appropriate unit. You may wish to evaluate this final project on neatness and quality of presentation.

Unit VI: Capstone Project

COMPETENCIES

Ability to identify the personal characteristics, skills, and sacrifices required for success as an entrepreneur

Ability to compare the advantages and disadvantages of ownership with those of working for someone else

Ability to evaluate alternative business ownership opportunities

Ability to prepare a description and rationale for a marketing business opportunity

Appreciation of the importance of location to the success of a business

Ability to collect and evaluate the necessary data for location decision

Ability to develop merchandising, sales promotion, and personnel policies to attract and keep customers

Ability to prepare a statement of opening expenses needed to open a new business

Ability to project a sales forecast for the first year of operation

Ability to compare the legal forms of ownership and determine which is most effective for the new business

Ability to prepare an organization chart showing the chain of command for the business

Ability to make plans for protection, security, recordkeeping, regulations, licensing and taxation

INSTRUCTIONS

Using the following Capstone Activities as components of the Capstone Project, organize a "Going Into Business Plan."

Capstone Activity	Topic
I	Type of Business
II	Legal Form
III	Risk Management
IV	Location
V	Sales Forecast
VI	Expenses
VII	Customer Profile
VIII	Advertising Budget
IX	Personnel Policy
X	Organization Chart

The final report should also include:

1. A cover
2. A title page
3. A table of contents
4. A bibliography

RESOURCES

Starting Your Own Marketing Business, by Vivien King Ely and Michael Barnes, second edition, Gregg McGraw-Hill, 1978.

Creating a New Enterprise, by Roger W. Hutt, South-Western Publishing Co., 1982.

Retail Merchandising, by Harland E. Sampson, Wayne S. Little, John W. Wingate, ninth edition, South-Western Publishing Co., 1982.

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Pace (Revised), by the National Center for Research in Vocational Education, 1983.

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Entrepreneurship for Women: An Unfulfilled Agenda, by Carol Eliason, 1981.

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The Entrepreneurs of Entrepreneurship, by Wesley W. Watkins, 1982.

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How to Run a Successful Small Business, by Small Business Management Schools, Inc., 1984.

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The Balancing Act: Running Your Own Business, The Bell System, 1978.

Starting and Managing a Small Business of Your Own, The Starting and Managing Series, third edition, U. S. Small Business Administration, 1973.

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Net Pro, New Enterprise Training for Profit, by Charlotte Taylor, Venture Concepts, 1983.

Entrepreneurship, Starting a New Business Kit, by Arnold C. Cooper, National Federation of Independent Business Research and Education Foundation, California, 1985.

"I Can Do It" (Series of three films), National Federation of Independent Business, Research and Education Foundation, California, 1985.